

# **Converting Your Credit Union from a Federal to State Charter**

Department of Financial Institutions

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## *Credit Union Charter Conversions – Federal to State*

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# **Credit Union Charter Conversion - Federal to State**

## **I. The dual chartering system**

The dual chartering system offers credit unions a choice between a state and federal charter. The nature of the dual chartering system is that each system develops its own set of policies, creating a competitive tension between the two. There are many similarities and many differences between the policies of each. There are also distinct advantages and disadvantages to each, depending on the business strategy of the credit union. The beneficiaries of this scenario are the credit unions and their members.

## **II. Overview of the Washington State charter for credit unions**

### **Regulators and share insurance**

Federally chartered credit unions are regulated by the National Credit Union Administration (NCUA), under the Federal Credit Union Act and NCUA rules. Their share accounts are insured by the National Credit Union Share Insurance Fund (NCUSIF), which is administered by the NCUA.

Washington State-chartered credit unions are regulated primarily by the Division of Credit Unions (Division) of the Washington Department of Financial Institutions. Washington credit unions are organized and regulated under:

1. The Washington State Credit Union Act, Chapter 31.12 of the Revised Code of Washington (RCW), and
2. The Division's rules are set forth in the following Chapters of the Washington Administrative Code (WAC):
  - a. Chapter 208-418: Fees
  - b. Chapter 208-436: Supervisory Approval of Investment Practices
  - c. Chapter 208-440: Commercial Business Activities
  - d. Chapter 208-444: Miscellaneous
  - e. Chapter 208-472: Field of Membership Expansion

A copy of Chapter 31.12 and the Division's rules can be found on our web site [www.dfi.wa.gov/cu](http://www.dfi.wa.gov/cu).

When a federally chartered credit union converts to Washington state charter, it must maintain its share insurance with the NCUSIF, see RCW 31.12.408. Consequently, converted state credit

unions are also regulated by the NCUA, through its insuring function. The NCUA's "insurance" rules are set forth at Part 741 (12 C.F.R. Part 741). A copy of these rules can be found on the NCUA web site at [www.ncua.gov](http://www.ncua.gov). In part, these rules cross-reference to certain federal charter rules that state charters must also comply with. Enclosed is a list of NCUA rules that apply to Washington state chartered credit unions. Federal credit unions considering charter conversion should review the NCUA insurance rules (Part 741) so they are aware of the NCUA rules that will apply to them as a state charter.

State chartered credit unions may offer share and deposit accounts, see RCW 31.12.402(1).

### **Examinations**

The Division and NCUA work cooperatively to examine and supervise state credit unions for safety and soundness and for compliance with federal consumer protection laws. In addition, the Division examines for compliance with state law.

However, the NCUA does not participate in every exam of a state credit union. Under our current Program Plan with Region VI of the NCUA (Region VI), joint examinations are conducted:

1. Infrequently on state credit unions with a CAMEL rating of 1 and 2 that have specific insurance risk factors;
2. On a case-by-case basis on state credit unions with a CAMEL rating of 3; and
3. Routinely on state credit unions with CAMEL ratings of 4 or 5.

Credit unions are notified in advance whether their examination will be joint or not. Even on joint examinations, the Division's examiner-in-charge meets with management and the Board of Directors, prepares the examination report and CAMEL rating, and forwards a copy of the report to the NCUA.

### **Information Systems and Technology (IS&T) Exams**

Credit unions must ensure that their use of information systems and technology (IS&T) is safe and sound. The Division began its IS&T exam program in early 2001, which it patterned after the NCUA program. Enclosed is a copy of the Division's Bulletin concerning the initiation of the IS&T exam program. The IS&T exams are performed by a contractor selected by the Division, and the costs of the exams are passed through to the credit union being examined.

### **Funding and fees**

The Division is funded by fees paid by state credit unions and related parties. The fees go into a dedicated, non-appropriated (revolving) fund. No general fund revenues of the state are used to pay for the operation of the Division.

The Division relies primarily on the payment of quarterly asset assessments for its revenue. Asset assessment billings are mailed by the Division to the credit unions each January, April,

July, and October. A converting federal credit union will pay a pro-rated quarterly asset assessment for the quarter in which it completes its conversion, see WAC 208-418-040(3).

Below are examples of the Division's current asset assessments.

<b>Total assets</b>	<b>Annualized asset assessment</b>	<b>Quarterly asset assessment</b>
\$501 Million	\$ 77,700	\$ 19,425
\$250 Million	\$ 42,602	\$ 10,651
\$100 Million	\$ 21,584	\$ 5,396
\$50 Million	\$ 10,792	\$ 2,698
\$20 Million	\$ 4,756	\$ 1,189
\$10 Million	\$ 3,168	\$ 792
\$2 Million	\$ 2,112	\$ 528

The Division also bills for certain incidental charges, including hourly fees for the review of community field of membership applications, and the pass-through of costs of examinations performed by third parties under personal service contracts, such as IS&T exams. See WAC 208-418-070 for the particulars of our fee rule.

During any fiscal year (July1 to June 30), the Division cannot increase its assessment and fee rates in excess of the "fiscal growth factor" for the year, without prior legislative approval.

#### **Nonrefundable NCUA operating fee**

Federal credit unions pay an annual operating fee to the NCUA, payable early in the year. State credit unions do not pay such a fee to the NCUA. The NCUA may not refund operating fees paid by a federal credit union during the year of conversion.

#### **Field of membership (FOM)**

Washington state credit unions enjoy a broader field of membership policy than federal charters. See the Division's explanatory statement on FOM, which is enclosed and the Division's FOM application rules, Chapter 208-472 WAC.

#### **Financial reporting**

State credit unions must continue to file financial reports on form 5300S, with the same frequency as federal credit unions, see NCUA Rules, Section 741.6 (12 C.F.R. Section 741.6). State credit unions file the 5300S with the Division, which in turn forwards it to the NCUA.

#### **Organizational chart of the Division**

Please see our web site for a listing of Division personnel and their positions [www.dfi.wa.gov/cu/dcucontacts.htm](http://www.dfi.wa.gov/cu/dcucontacts.htm).

### **Department of Financial Institutions (DFI)**

The Division of Credit Unions is one of the four Divisions of the Washington Department of Financial Institutions (Department). The Director of the Department is John L. Bley. The four Divisions, and their Directors, are as follows:

1. Division of Credit Unions, under Parker Cann, regulates state credit unions.
2. The Securities Division, under Deborah Bortner, regulates securities offerings and issuers, securities broker-dealers and investment advisers, and franchises and other business opportunities.
3. The Division of Banking, under Dave Kroeger, regulates state commercial banks, trust companies, savings banks, savings and loans associations, and foreign banks.
4. The Division of Consumer Services, under Mark Thompson, regulates consumer loan companies, mortgage brokers, check cashers and sellers, and escrow companies.

### **Taxes**

State and federal credit unions are non-profit entities under the Internal Revenue Code and therefore are exempt from the payment of federal income taxes. However, state credit unions must file individual informational returns annually with the IRS on Form 990.

State and federal credit unions are exempt under Washington statute from the payment of state business and occupation taxes. See RCW 82.040.405.

Federal credit unions are exempt under federal law from the payment of state sales taxes. However, state credit unions do not enjoy such an exemption and therefore are liable for the payment of such taxes on their purchases.

### **Updating of the Act**

The Division introduced a Departmental Request bill in the 2001, which was enacted into law State Legislative Session to revise the State Credit Union Act. Among other provisions, the law allows credit unions to act as insurance agent or broker for all lines of insurance, to the extent other state chartered financial institutions may do so.

## **III. Advantages and disadvantages of a state charter**

### **Advantages**

- Local regulator operating smaller agency with statewide as opposed to nationwide outlook
- Local legislature and legislators
- More expansive set of state powers and authorities (such as field of membership)

- Ability to continue to exercise federal powers, through state “parity provision” (RCW 31.12.404
- Opportunity to build consensus with Division on regulatory policy, such as modernization of Washington State Credit Union Act and Division rules, and issues relating to field of membership.

### **Disadvantages**

- Additional cost of Washington sales tax on purchases.

## **IV. The charter conversion process**

### **Applicable statutes and rules**

To convert to state charter, a federal credit union must comply with the following provisions:

1. RCW 31.12.467.
2. Section 125(a) of the Federal Credit Union Act (12 U.S.C. Section 1771(a)). See enclosed instructions for accessing the Federal Credit Union Act on the NCUA web site.
3. NCUA Rules at Section 701.1 (12 C.F.R. Section 701.1). See enclosed instructions for accessing the NCUA Rules on the NCUA web site.
4. Chapter 4, NCUA Chartering & FOM Manual, see enclosed instructions for accessing the NCUA Chartering & FOM Manual on the NCUA web site, pages 4-5 to 4-11.

Moreover, the conversion must be completed in accordance with any applicable provisions of the federal credit union’s charter and bylaws. The credit union may continue to use the same name, except for the word “federal.” Chapter 4, NCUA Chartering & FOM Manual.

### **Supervisory Committee members**

The Board may continue to appoint individuals, including one director, to serve as Supervisory Committee members, based on the state parity provision. If the converted credit union chooses instead to elect Supervisory Committee members, no more than one director may serve on the Committee, unless the credit union’s bylaws provide otherwise.

### **Field of membership (FOM) of the converted credit union**

The Washington State Credit Union Act includes a “parity provision,” RCW 31.12.404 that grants state credit unions all the powers and authorities conferred on federal credit unions as of December 31, 1993. This Section also authorizes the Director to adopt by rule powers and authorities conferred on federal credit unions after 1993.

Generally, FOM expansions by federal credit unions approved by the NCUA after 1993 were based on powers and authorities existing on or before December 31, 1993. Accordingly, a converted credit union may keep the field of membership it had as a federal charter.



In order to simplify conversions, we prefer not to address FOM expansion requests in the conversion process. Subsequent to the conversion, the state credit union may apply to the Division to include additional groups in its FOM, in accordance with the Division's rules set forth in Chapter 208-472 WAC.

### **Major conversion steps**

The major steps for conversion are as follows:

1. The credit union's Board adopts the conversion proposal (by at least a majority vote)
2. The credit union files an application to convert with NCUA Region VI
3. The credit union files an application to convert with the Division
4. The Division approves the application
5. NCUA Region VI approves the application
6. The credit union distributes notice of the meeting of members, including disclosures approved by the NCUA
7. The members of the credit union approve the conversion (by at least a majority of those voting)
8. The credit union files necessary documentation with the Division and NCUA Region VI
9. The Division files the articles of conversion and the articles of incorporation with the Secretary of State to complete the conversion.

It should be noted that the federal credit union may not take the conversion plan to a membership vote until after it has received approval from the Division and NCUA Region VI.

### **Time period for conversion**

In the absence of any unusual complications, a federal credit union can anticipate completion of its conversion within 90-120 days after filing the application.

### **Conversion forms**

NCUA requires certain forms to be completed and filed for the conversion, including:

1. Form 4221 - Notice of Meeting of the Members
2. Form 4505 - Affidavit and Proof of Results of Membership Vote On Proposed Conversion
3. Form 4506 - Ballot for Conversion Proposal
4. Form 9600 - NCUA Application and Agreements for Insurance of Accounts.

These forms can be printed from the NCUA web site taking the following steps:

1. Logon to the NCUA web site ([www.ncua.gov](http://www.ncua.gov))
2. Double click on Reference Information
3. Double click on The Chartering & FOM Manual
4. Double click on The Chartering & FOM Manual, then select the form you want

In the interest of efficiency, the Division accepts these forms for its purposes as well. If you wish to revise the NCUA forms or create your own, you will need prior approval from the Division and NCUA.

**Possibility of a conversion exam**

An on-site examination may be required by the Division or NCUA, or both, particularly for credit unions with a CAMEL rating of 3. Therefore, it is recommended that the credit union allow at least 60 days after filing the conversion applications to obtain Division and NCUA Region VI approvals. More time may be needed if an examination requires corrective action prior to conversion.

**Notice to members**

The converting federal credit union must prepare a notice of meeting of members, which must disclose the anticipated costs of the conversion, as well as reasons for and against the conversion, see Chapter 4 of the NCUA Chartering & FOM manual. The NCUA is particularly concerned with disclosing the costs of eliminating the word “federal” from the credit union’s name. Converting credit unions must arrange for the issuance of new credit cards and check stock to members with the new name within a reasonable period of time after the conversion is completed.

We recommend that you contact other recently converted credit unions for additional insights.

**Conversion application filed with NCUA Region VI**

The conversion application filed with NCUA Region VI should contain the following:

1. Statement of specific reasons supporting the conversion
2. Copy of the credit union’s most recent balance sheet and income statement
3. Current delinquent loan schedule
4. Board resolution approving the conversion proposal (by at least a majority vote)
5. NCUA form 9600
6. Proposed Notice of Meeting of the Members (NCUA form 4221)
7. Proposed Ballot for Conversion Proposal (NCUA form 4506)
8. Evidence that the Division is in agreement with the conversion proposal.

**Conversion application filed with the Division**

The conversion application filed with the Division should contain the following:

1. Cover letter, including the name of the contact person at the credit union, and a brief description of the credit union’s business, including any out-of-state operations
2. Copy of materials filed with NCUA Region VI
3. Copy of the most recent NCUA examination report and the credit union’s response
4. Copy of the most recent 5300 report
5. Copy of current charter and bylaws
6. Proposed articles of incorporation and bylaws for the state credit union, including an opinion of counsel that the articles and bylaws are in compliance with Chapter 31.12 RCW.

The converting credit union may continue to use its Federal bylaws, with appropriate changes (names, etc.). The Washington Credit Union League has developed a set of Model Bylaws.

Please see a copy of the Model Bylaws on our web site ([www.dfi.wa.gov/cu](http://www.dfi.wa.gov/cu)) or contact Stacy Augustine at the League, (206) 340-4111, ext. 121, for more information. If the credit union is conducting business in any other state, the Division will work with the other state's supervisor to determine if the credit union must qualify to conduct business in the other state.

### **Membership vote**

Once the Division and the NCUA Region VI have approved the conversion, the conversion plan may be presented at a meeting for the approval of the members. Voting may be at an annual or special membership meeting, or by mail ballot. Section 125(a) of the Federal Credit Union Act (12 U.S.C. Section 1771(a)), seeing enclosed instructions for accessing this information from the NCUA web site.

### **Completion of the conversion**

After approval of the conversion by the Division, NCUA Region VI, and the credit union's members, the credit union may take the steps necessary to effect the conversion. The conversion must be completed within 90 days after the membership vote. Section 125(a) of the Federal Credit Union Act (12 U.S.C. Section 1771(a)).

To complete the conversion, the following must be submitted to:

1. The Division:
  - Certification from the NCUA that they are satisfied with the procedures and presentation of the issues leading to the vote and its results
  - Completed Articles of Conversion
  - NCUA form 4505
  - Three copies of the state credit union's bylaws, with a cover letter certifying that they have been duly approved by the credit union's Board of Directors
  - Three signed and certified copies of the Articles of Incorporation and Articles of Conversion of the state credit union
  - A check for \$90 payable to the Washington Secretary of State for expedited filing of the state credit union's articles of incorporation and the articles of conversion.
2. NCUA Region VI:
  - NCUA Form 4505.
  - Copy of the Articles of Conversion, bearing the stamp of the Secretary of State
  - The credit union's federal charter and federal insurance certificate
  - The credit union's most recent month-end financial reports on NCUA Form 109A and 109B.

The conversion is complete, and the state credit union comes into existence, when its articles of conversion and articles of incorporation are filed by the Division with the Washington Secretary of State. The credit union should immediately file a copy of these Articles, bearing the stamp of the Washington Secretary of State, with the NCUA Region VI, but no later than 10 days after the Articles are filed with the Washington Secretary of State. There is a need for immediacy here because the existence of the federal credit union does not apparently cease until the filing is made

with NCUA Region VI. See the Federal Credit Union Act at Section 125 (12 U.S.C. Section 1771(a)), and compare Chapter 4 of the NCUA Chartering and FOM manual, on pages 4-5 through 4-11. The NCUA will issue a new insurance certificate to the state credit union.

### **Transfer of assets and liabilities**

Upon the conversion, the state credit union succeeds to all the assets and liabilities of the federal credit union. RCW 31.12.467(a); Federal Credit Union Act at Section 125(a)(4) (12 U.S.C. Section 1771(a)(4)).

### **Name change**

If, because of the conversion, the credit union needs to change the name it uses in its signs, advertising, stationery, etc., the credit union should make the change as soon as possible after the conversion. Of course, the credit union will need to notify appropriate parties of the name change, such as bonding companies, title companies, etc.

Please see our web site ([www.dfi.wa.gov/cu](http://www.dfi.wa.gov/cu)) under “How to do a Name Change” for the necessary procedures to complete a name change.

### **V. NCUA Region VI contact**

**To contact Region VI of the NCUA regarding conversions, call or write to:**

National Credit Union Administration  
Region VI  
2300 Clayton Road, Suite 1350  
Concord, CA 94520  
Phone: (925) 363-6200

# **NCUA Rules Applicable To Federally-Insured, Washington State-chartered Credit Unions**

last revised 2/8/01

## **Section 701.14**

Change in Official or Senior Executive Officer in Credit Unions that are Newly Chartered or are in Troubled Condition

## **Section 701.32**

Payment on Shares by Public Units and Nonmembers

## **Part 702**

Prompt Corrective Action

## **Part 707**

Truth in Savings

## **Part 708a**

Conversion of Insured Credit Unions to Mutual Savings Banks

## **Part 708b**

Mergers of Federally Insured Credit Unions; Voluntary Termination or Conversion of Insured Status

## **Part 709**

Involuntary Liquidation and Adjustments of Creditor Claims involving Federally Insured Credit Unions in Liquidation

## **Part 711**

Management Official Interlocks

## **Part 713**

Fidelity Bond Insurance Coverage

## **Part 715**

Supervisory Committee Audits and Verifications

**Part 716**

Privacy of Consumer Financial Information

**Part 722**

Appraisals

**Part 725**

Central Liquidity Facility

**Part 740**

Advertising

**Part 741**

Requirements for Insurance

**Part 745**

Share Insurance

**Part 747**

Administration Actions, Adjudicative Hearings, Rules of Practice and Procedure, and Investigations

**Part 748**

Security Program, Report of Crime or Catastrophic Act and Bank Secrecy Act Compliance

**Part 749**

Records Preservation Program

**Part 760**

Loans in Areas Having Special Flood Hazards

## **Division's Explanatory Statement on Field of Membership**

Last revised February 2001

### **FOM statutes, rules, and guidelines**

**Generally.** The Washington State Credit Union Act ("Act"), Chapter 31.12 RCW, sets forth requirements on the field of membership (FOM) of state credit unions. These statutory requirements are fairly brief:

**RCW 31.12.045.** (1) Membership in a credit union shall be limited to groups having a common bond of occupation or association, or to groups within a well-defined neighborhood, community, or rural district. The director may adopt rules: (a) Reasonably defining "common bond"; and (b) setting forth standards for the approval of charters.

(2) The director may approve the inclusion within the field of membership of a credit union a group having a separate common bond if the director determines that the group is not of sufficient size or resources to support a viable credit union of its own.

**RCW 31.12.145.** A credit union may admit to membership those persons qualified for membership as set forth in its bylaws upon the payment of a membership fee, if any, or the purchase of one or more shares, as provided in the bylaws. A fraternal organization, partnership, or corporation having a usual place of business in this state and comprised principally of persons who are eligible for membership in the credit union may become a member of the credit union.

These provisions of the Act are implemented by the Division's rules set forth at Chapter 208-472 WAC. In addition, the Division has developed Guidelines for applications to add a community group to a credit union's FOM.

### **Types of FOMs**

Washington State-chartered credit unions may include occupational groups, associational groups, or community groups in their FOM. Moreover, a credit union may have one (or more) of each of these types of groups in its FOM. RCW 31.12.045; WAC 208-472-012.

Eligible groups may be added to a credit union's FOM, with the prior approval of the Division. RCW 31.12.115, .145; WAC 208-472-010.

**Occupational groups.** See definition in WAC 208-472-015(3). The Division also has a streamlined procedure for adding small occupational groups (SOGs) with up to 500 members. WAC 208-472-041.

**Associational groups.** See definition in WAC 208-472-015(2). Associations must be comprised primarily (50% + 1) of natural persons. Business members of an association may be members of the credit union, but not the employees of such businesses.

**Communities.** See definition in WAC 208-472-015(4). A credit union with a community (including a rural district) in its FOM may take as a member any person who lives, works, or worships in the community. WAC 208-472-015(4); RCW 31.12.136. In addition, a credit union with a community FOM may take as a member any business that is located in the community. RCW 31.12.145.

A credit union applying to add a community to its FOM does not have to give up any of its SEGs or associational groups in the community.

As indicated, a credit union may include more than one community in its FOM. These communities may be physically separate and distinct, or they may be contiguous. In order to receive our approval, an application for addition of a community must satisfy the requirements of WAC 208-472-065. Under our policies, we will not grant approval if the area **applied for** has a population of more than 75,000 residents (not including the population of any communities previously approved), with certain exceptions. One exception is for rural districts – counties, cities, and school districts with a population of less than 75 people per square mile – even if the overall residential population of the district exceeds 75,000. Another exception is for an area that has been previously approved as a community for another state credit union.

### **Restrictions on direct occupational and associational group overlaps**

Our rules restrict direct overlaps in the same occupational or associational group, with certain exceptions. WAC 208-472-025(3), -050(3). For example, if credit union "A" wants to add the employees of XYZ Corp. to its FOM, and the employees of XYZ Corp. are included in the FOM Bylaw of credit union B, we would deny the application, unless at least one of the following requirements was satisfied:

1. The “overlapped” credit union (B) consented to the overlap;
2. A specified percentage of XYZ’s employees signed a statement that they wanted service from the applicant (A); or
3. The “overlapped” credit union provided inadequate service to the employees of XYZ.

WAC 208-472-025. Similar rules exist for direct associational group overlaps. See WAC 208-472-050. These overlap rules apply whether the overlapped credit union is state or federally chartered.



However, it should be noted that the overlap rules do not apply to direct overlaps in the same occupational or associational group created by a merger of the underlying enterprises. WAC 208-472-025(3), -050(3).

### **Other overlaps are not restricted**

Outside of these direct occupational or associational overlaps, however, our rules do not restrict the approval of FOM applications that create other direct or indirect overlaps. To provide clarity on our policies, it is important here to note the situations where our overlap rules do not apply:

**1. Direct community overlaps.** The overlap rules do not apply to communities. More than one credit union may have the same community in its FOM.

**2. Indirect occupational group to associational group overlaps, and vice versa.** For example, the overlap rules do not apply:

A. If credit union A applies for the addition of an occupational group to its FOM and certain employees in the group are also members of an associational group that is explicitly in the FOM Bylaw of credit union B.

B. If credit union A applies for the addition of an associational group to its FOM and certain members of the group are also employees in an occupational group that is explicitly in the FOM Bylaw of credit union B.

**3. Indirect overlaps between a community, on one hand, and an associational or occupational group, on the other.** For example, the overlap rules do not apply:

A. If credit union A applies to add a community to its FOM, even though individuals who reside or work in the community may be employees of an occupational group, or members of an associational group, that is explicitly in the FOM Bylaw of credit union B. However, there are limitations on credit union A's ability to direct market to the employees or members of these occupational or associational groups in B's FOM, as discussed below.

B. If credit union A applies to add an occupational group or associational group to its FOM, even though some employees or members of these groups live or work in a community that is explicitly in the FOM Bylaw of credit union B.

### **Limitations on direct marketing by community credit unions to occupational and associational groups in the community, and related matters**

Except as noted below, a community credit union may not conduct direct marketing targeted at any occupational or associational group in the community that is explicitly included in the FOM Bylaw of another credit union at the time the community was approved. WAC 208-472-065(8).

The Division has adopted the following additional policies concerning community charter credit unions:

A. If an occupational or associational group in the community is served by a community credit union, and another credit union applies to add the occupational or associational group to its FOM, the application will be evaluated without regard to the overlap Rules.

B. If the application is approved, both credit unions can serve the group and direct market to the group.

C. Although a community credit union may be permitted to serve individuals in an occupational or associational group in the community, the credit union will not be allowed to add the group to its FOM bylaws. Otherwise, the credit union may be able to block other credit unions from adding the occupational or associational group to its FOM because of the overlap rules.

### **Parity provision**

State credit unions are granted all the powers and authorities of federal credit unions. RCW 31.12.136. Consequently, state credit unions may enjoy additional FOM expansion options under this parity provision.

# **NCUA Rules & Regulations, Part 741 Requirements for Insurance**

## **How to Access NCUA Rules & Regulations, Part 741**

1. Logon to the NCUA web site ([www.ncua.gov](http://www.ncua.gov))
2. Double click on Reference Information
3. Double click on Rules and Regulations
4. Double click on the most recent version of Rules and Regulations
5. Double click on NCUA Rules & Regulations, Part 741

# ***DCU BULLETIN***

***Division of Credit Unions***

***Washington State Department of Financial Institutions***

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**January 3, 2001**

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## **Information Services & Technology Exams**

As of December 31, 1999, 67 Washington state-chartered credit unions (95% of total assets) had a web site presence. Of those 67 credit unions, 28 credit unions (81% of total assets) had an interactive web site. As of year end 2000, the Division of Credit Unions (Division) had not specifically evaluated the safety and soundness of a credit union's data processing or electronic banking (E-banking) systems. Such examinations will be referred to as Information Systems and Technology (I S & T) exams.

The advent of E-banking technology has largely been a recent and speedy development. The rapid growth of E-banking services has led to Congressional concern about the safety and security of such banking activities. A 1999 Congressionally authorized study by the Government Account Office (GAO) recommended enhancing regulatory oversight of E-banking activities. The Division concurs with the GAO's concerns about the following risks, which may arise from e-banking activities:

- Strategic risk - The risk to earnings or capital arising from adverse business decisions or adverse implementation of those decisions.
- Compliance risk - The risk arising from violations of, or nonconformance with laws, rules, regulations, required practices, or ethical standards.
- Security risk - The risk of potential unauthorized access to a depository institution's network, systems, and databases that could compromise internal systems and customer data and result in financial losses.
- Reputation risk - The risk of significant negative public opinion that results in a critical loss of funding or customers.

- Transactional risk - The risk of financial losses arising from problems with service or product delivery.

Beginning early in 2001, the Division will start to examine the I S & T systems of state chartered credit unions. The Division will be contracting with a third party, having significant expertise in this field, to perform those examinations. We will be using the NCUA's E-commerce and Electronic Data Processing Review Questionnaires as the starting point for the exams. Those questionnaires may be found at [www.ncua.gov](http://www.ncua.gov), under Information Systems & Technology, under Letters to Credit Unions. Significant exam findings will necessitate corrective action by the credit union in a timely manner with written response to the Division describing the actions taken.

The cost of each I S & T examination will be passed through to the examined credit union as permitted by WAC 208-418-070 (3). It is anticipated that most examinations will require no more than five days to complete and that all credit unions will receive their first I S & T examination within the next two years. Depending upon the results of the first round of examinations, we anticipate that succeeding I S & T exams will be completed approximately every eighteen months and will be conducted by our contractor generally at the same time as the regular safety and soundness exam.

If you have questions about I S & T examinations, please call Mike Delimont at (360) 902-8790.

# **The Federal Credit Union Act §1771**

## **Conversion from Federal to State Credit Union**

### **How to Access The Federal Credit Union Act §1771**

1. Logon to the NCUA web site ([www.ncua.gov](http://www.ncua.gov))
2. Double click on Reference Information
3. Double click on The Federal Credit Union Act
4. Double click on The Federal Credit Union Act
5. Double click on Part §1771

## **NCUA Chartering & FOM Manual – Chpt. 4 Conversion from a Federal to State Charter**

### **Steps to Access the NCUA Chartering & FOM Manual – Chpt. 4**

5. Logon to the NCUA web site ([www.ncua.gov](http://www.ncua.gov))
6. Double click on Reference Information
7. Double click on The Chartering & FOM Manual
8. Double click on The Chartering & FOM Manual
9. Double click on Chapter 4 Charter Conversions

# **How to Access NCUA Charter Conversion Forms**

## **Chartering & FOM Manual – Chpt. 4**

### **Steps to Access the NCUA Forms**

- Form 4221 – Notice of Meeting of the Members
  - Form 4505 – Affidavit and Proof of Results of Membership Vote on Proposed Conversion
  - Form 4506 – Ballot of Conversion Proposal
  - Form 9600 – NCUA Application and Agreements for Insurance of Accounts.
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1. Logon to the NCUA web site ([www.ncua.gov](http://www.ncua.gov))
  2. Double click on Reference Information
  3. Double click on The Chartering & FOM Manual
  4. Double click on The Chartering & FOM Manual
  5. Select the NCUA form that you would like



**Articles of Conversion**  
**of an Out-of-state or Federal Credit Union**  
**to a Washington State-chartered Credit Union**

\_\_\_\_\_  
UBI # of Converted Credit Union

Submit original and one copy  
Fee: \$60

\_\_\_\_\_  
Phone # of Credit Union

**To Credit Union:** Please type or print in black ink.

1. These Articles of Conversion concern the conversion of

\_\_\_\_\_ (Converting Credit Union) to

\_\_\_\_\_ (Converted Credit Union).

2. The Converting Credit Union is [check one]:

\_\_\_\_\_ A. Operating under the Federal Credit Union Act; or

\_\_\_\_\_ B. Operating under the law of the State of \_\_\_\_\_.

3. The Converted Credit Union will be operating under Chapter 31.12 RCW.

4. The board of directors and members of the Converting Credit Union have given all required approvals of the conversion, in accordance with applicable law.

5. The conversion has received all necessary regulatory approvals.

6. The conversion will be effective [check one]:

\_\_\_\_\_ A. As of the close of business on the date this Articles of Conversion document is filed with the Secretary of State; or

\_\_\_\_\_ B. At the time and on the date specified below, which in no event is more than 90 days after the date this Articles of Conversion document is filed with the Secretary of State:

\_\_\_\_\_.

Articles of Conversion of Credit Union  
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7. The undersigned Officer hereby represents to the best of his or her knowledge that this document is true and correct.

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Signature of Credit Union Officer

Title

Date

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**Approved for filing:**

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Assistant Director, Division of Credit Unions  
Department of Financial Institutions

Date